DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 29, 2015

Hon. Christy L. Romero
Special Inspector General
for the Troubled Assets Relief Program
1801 L Street, NW, 4th Floor
Washington, D.C. 20220

Re: Treasury Response to SIGTARP's Quarterly Report

Dear Ms. Romero:

I write in response to your January 28, 2015 Quarterly Report to Congress. Treasury welcomes oversight of all of its programs, including TARP, and we appreciate the work you do in that regard.

Your most recent Quarterly Report contains a section on states' use of TARP's Hardest Hit Funds for blight elimination programs.[1] Program and allocation changes — such as whether or not to implement a blight elimination program and how much money to dedicate to such a program — generally originate with the individual states, as they are in the best position to understand what programs meet their needs and particular circumstances. To that end, Michigan, Ohio, Indiana, Illinois, South Carolina, and Alabama have determined that blight elimination will help prevent avoidable foreclosures by stabilizing neighborhoods. We agree that oversight of all state HHF programs, including blight elimination, is important. Treasury conducts frequent oversight over the state programs, consisting of compliance reviews and performance monitoring. However, Treasury is always looking for ways to improve its policies and procedures as programs evolve and will continue to work with SIGTARP in this regard.

The Quarterly Report also includes a section on the Capital Purchase Program (CPP). We are disappointed that you did not mention the many ways we have worked to support and improve the long-term viability of small and community banks that participated in the CPP. The financial crisis of 2008 threatened the viability of many financial institutions, and the CPP was launched to help stabilize the financial system and support our economy by bolstering the capital position of participating institutions. Treasury disagrees with the contention in the report that it has changed its approach since the largest banks exited the program. Treasury sought to manage all of its investments — in banks large and small — in a consistent manner, while working to strengthen the financial health of participating institutions, the financial system and the broader economy.

To that end, Treasury has assisted large and small institutions throughout the CPP lifecycle in facilitating repayments of the TARP investments, and has restructured thirty-five community bank investments to improve the institutions' core capital levels, facilitate new capital formation

[1] We note that Treasury was not given the opportunity to review this section of the report for factual accuracy.

and support lending. Furthermore, the Treasury team continues to work with numerous remaining CPP institutions on restructuring proposals and recapitalizations in support of those institutions and to protect taxpayers' interests.

TARP was always intended to be a *temporary* program, grounded in the reality that replacing government support with private capital is critical to promoting financial stability. Treasury has also sought to balance the speed of our exit with maximizing returns for taxpayers and promoting financial stability. Accordingly, in May 2012, Treasury laid out its strategy for winding down its remaining investments in CPP institutions. The three-prong strategy included a mix of waiting for the banks to repay Treasury, restructuring investments, when necessary, and selling CPP investments over time due to the temporary nature of TARP. Following that strategy has produced meaningfully positive results for taxpayers. We have now recovered approximately $226.4 billion from the CPP through repayments, dividends, interest and other income, compared to $204.9 billion disbursed. The auction platform is a key component of this strategy and it has helped reduce the size of Treasury's investment portfolio over time, and as a result, reduced taxpayer risk.

The report also asserts that Treasury has been "forcing smaller community banks out of the program," which is incorrect. To date, we have approached banks where we believed auctions were the best option and then proceeded with auctions with the banks' permission and help. Those banks worked in concert with Treasury to facilitate auctions of their shares by completing necessary paperwork and obtaining any necessary regulatory approval for any such auction.

We appreciate your continued interest in our housing programs, CPP and the other initiatives under TARP. We look forward to continue working with you in the future.

Sincerely,

Timothy J. Bowler

Timothy J. Bowler
Deputy Assistant Secretary
Office of Financial Stability